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SUBJECT: POVERTY DECLINING AT AN EVER-DECREASING RATE

SUMMARY

¶1. According to a recent National Bureau of Statistics and Census (INDEC) report, the percentage of people living below the poverty line was 33.8 percent in the 28 most important urban areas of Argentina during the second half of 2005. The percentage of people living below the destitution line was 12.2 percent in the same areas. Poverty and destitution have been decreasing since the 2002 crisis, when the percentage of people living below the poverty line reached a peak of 57.5 percent and the percentage of the destitute was 27.5 percent. The Embassy expects poverty and destitution to continue to decline in 2006, but at an ever-decreasing rate. This is because economic growth will be lower than in 2005 and because the easy employment gains have already been made. The continued decline in poverty and destitution will also be slowed by the differential wage gains between formal, informal and public sector workers. End summary.

RECENT FIGURES ON POVERTY AND DESTITUTION LEVELS

¶2. According to a National Bureau of Statistics and Census (INDEC) report released on March 21, the percentage of people living below the poverty line was 33.8 percent of urban population in the 28 most important urban areas of Argentina, during the second half of 2005. The percentage of the poor was 38.9 percent in the first half of 2005, and 40.2 percent in the second half of 2004. The 33.8 percent poverty rate represents 7.9 million people that cannot afford the value of the total consumption basket estimated by INDEC every month.

13. The percentage of people living below the destitution line was 12.2 percent of urban population in the 28 most important urban areas of Argentina, during the second half of 2005. The percentage of the destitute was 13.8 percent in the first half of 2005, and 15 percent in the second half of 2004. The 12.2 percent destitution rate represents 2.8 million people than cannot afford the value of the food consumption basket estimated by INDEC every month. However, the percentage of people living below the destitution line without considering income supplements (Heads of Household and similar programs) was 14.2 percent in the second half of 2005.

14. The sharpest drop in the poverty rate during the second half of 2005, compared to the second half of 2004, took place in Rio Gallegos, the capital city of Santa Cruz Province, where poverty decreased from 16.1 percent to 8.9 percent. Posadas, the capital city of Misiones Province, was the only city in which the poverty rate increased, growing from 51.3 percent to 53.0 percent in the same period. The percentage of people living below the poverty line in Greater Buenos Aires decreased from 37.7 percent in the second half of 2004 to 30.9 percent in the second half of 2005.

POVERTY DEVELOPMENT

15. The poverty and destitution levels have been decreasing since the 2002 crisis, when the percentage of people living below the poverty line reached a peak of 57.5 percent of urban population, and the percentage of people living below the destitution line was 27.5 percent. Local economic consultant Artemio Lopez said that the latest drop in the poverty and destitution rates was due to the increase in formal and informal sector salaries, and to the increase in hours worked, in a context of strong economic growth and decreasing unemployment. However, economic analyst Jorge Colina pointed out that poverty is diminishing at a slower rate than economic growth. Annual GDP grew 9.2 percent in 2005 and the economy reached the pre-crisis levels, whereas poverty only dropped 6 percentage points and is still above the 1990s levels.

THE LOW MARGINAL CLASS

16. Economic consultant Ernesto Kritz noted that most people who have recently risen above the poverty line belonged to the middle class before 2002 and became poor during the crisis. Therefore, poverty among individuals belonging to the low marginal class is still a structural problem, and is related to high unemployment and increasing employment in the informal sector.

COMMENT

17. The Embassy expects poverty and destitution to continue to decline in 2006, but at an ever-decreasing rate. This is because economic growth will be lower than in 2005 and because the easy employment gains have already been made. Future reductions in poverty and destitution will depend in part on educational gains and technical training. While there is a growing demand for skilled workers, there is also a shortage of skilled workers who are able to take advantage of these opportunities.

18. The continued decline in poverty and destitution

will also be slowed by the differential wage gains between formal, informal and public sector workers. Formal sector workers have used their higher skills and union associations to secure wage gains above the rate of inflation. Informal sector workers have barely been able to secure wages that keep up with inflation and public sector workers have fallen behind. This means that the informal and public sector workers (including pensioners and recipients of government subsidies) are less likely to rise out of poverty and destitution, even if they find employment. This could also work against a better income distribution, particularly in the provinces, where growth often occurs along with a worsening of income distribution.

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